



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

February 11, 2005

TO: Senator Joseph Zarelli
Senator Mark Doumit
Representative Jim McIntire
Victor Moore, OFM, Director
Will Rice, DOR, Director

FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: February 10, 2005 REVENUE COLLECTION REPORT

General Fund-State collections totaled \$1,081.0 million in the January 11–February 10, 2005 collection period. Receipts were \$26.9 million (2.5 percent) above the estimate for the period. Despite the rise of short term interest rates, the mortgage rates remains low and continues to fuel the real estate market. The strong real estate market accounted for most of the month's positive variance. Estate, liquor and brokered natural gas tax collections were also higher than expected for the month, while property tax receipts were less than expected. Revenue Act (retail sales, business and occupation, use and public utility taxes) taxes were very close (+\$0.3 million) to the estimate for the period. Higher than expected collections this month increase the cumulative variance for the three months since the last forecast to +\$116.1 million (3.5 percent.)

Economic news continues to be mostly positive. The U.S. economy added 146,000 jobs in January 2005 following increases of 132,000 in November and 133,000 in December. While this was less than most economists had expected, it was enough to lower the January U.S. unemployment rate to 5.2 from 5.4 percent in December. The Conference Board reported that the U.S. index of leading indicators rose in both November and December after five months of decline. Surprisingly, consumer confidence fell for the fourth straight month in December; however, the December level is still about the same as a year ago. At the state level, seasonally adjusted wage and salary employment increased in December for the fifth consecutive month. Also, the Washington index of leading indicators rose in December for the third straight month. The December index level is now the highest it has been since January 2001.

Spending as reflected by sales, use and business and occupation tax payments remained strong in December. Revenue Act receipts were 7.0 percent (adjusted for special factors) higher than a year-ago this period (primarily reflecting December business activity). This is only slightly weaker than last month's 8.9 percent gain and the 9.2 percent increase two months ago. For the fourth quarter as a whole Revenue Act receipts are 8.2 percent above the year-ago level. This is the best year-over-year quarterly gain since the fourth quarter of 2000. For the fiscal year-to-date collections are 7.2 higher than a year ago.

Preliminary industry data for the January 11, to February 10, 2005 collection period based on payment data of more than 13,000 mostly large taxpayers who filed electronically, show a 7.9 percent increase in tax payments by businesses in the retail trade and food services sector. Last month retailers reported a 5.6 percent gain. All twelve three-digit retail sectors reported increases with the exception of food and beverage stores which reported no gain. Double digit gains were reported by seven 3-digit retailing NAICS sectors, with the largest gains reported by building materials/garden retailers (+17.4

percent), apparel and accessory stores (+13.9 percent) and sporting goods, toys, books and music stores (+13.8 percent.) Tax payments by auto dealers were up 10.4 percent but general merchandise stores reported only a 2.4 percent increase in tax payments. Overall, tax payments by non-retail trade and food services business were up a strong 8.8 percent this month. Last month this category reported an 8.7 percent increase. The construction sector was again very strong this month reporting a 16.3 percent increase in tax payments for the period. Manufacturers reported a 16.5 percent increase and tax payment reported by the information sector were up 13.5 percent. Of the major sectors, the only weakness was in the arts, entertainment and recreation sector which reported tax payment 9.4 percent below the year-ago level.

Non-Revenue Act General Fund taxes were \$26.5 million above the estimate this period, accounting for nearly all of this month's positive variance. Most major Non-Revenue Act sources were above the estimate for the month. Real estate excise tax receipts were \$20.1 million above the forecast, estate tax was \$1.7 million higher than expected and "other" revenue (primarily brokered natural gas receipts) was \$6.7 million above the estimate. Property tax receipts were \$2.5 million less than expected for the month. Cumulatively, for the three months since the November forecast Non-Revenue Act taxes are \$67.1 million higher than expected with the real estate excise tax (+\$41.5 million), "other" (+\$18.9 million)—primarily unclaimed property and brokered natural gas, and estate tax (+\$8.3 million) accounting for the positive variance. The estate tax received this month was likely paid prior to the State Supreme Court ruling that invalidated Washington's estate tax. The decision effectively phases out the estate tax and will result in refunds of some previously paid estate tax. This will significantly reduce future estate tax collections.

While short term rates are increasing, mortgage rates have not and remain lower than expected in the November forecast. Low mortgage rates and a growing economy have resulted in another very strong month of real estate activity. Taxable activity (based on closings in December which reflect tax payments to the state in January) was 47.1 percent higher than a year-ago, only a little weaker than last month's 56.1 percent increase. Higher prices again are the main reason for the strength of real estate activity. For the month the average value per real estate transaction increased 40.2 percent, the strongest monthly year-over-year growth since 1987. Last month the average value increase 29.2 percent. For the calendar 2004 the average value per transaction was up 22.2 percent, the best year since 1989. The number of transitions was up a more modest 4.9 percent. Last month transactions increased 20.8 percent but for the year, transactions are up only 3.7 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$87,000 above the estimate for the month. Cumulatively for the three months since the November forecast Department of Licensing collections are \$157,000 (11.1 percent) higher than expected.

The attached Table 1 provides a comparison of collections with the November 2004 forecast for the January 11, – February 10, 2005 collection period. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
February 10, 2005 Collections Compared to the November 2004 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference Amount</u>	<u>Percent</u>
January 11 - February 10, 2005				
Department of Revenue-Total	\$1,054,278	\$1,081,042	\$26,765	2.5%
Revenue Act** (1)	980,316	980,609	293	0.0%
Non-Revenue Act(2)	73,962	100,434	26,472	35.8%
Liquor Sales/Liter	12,044	12,613	569	4.7%
Cigarette	4,211	4,204	(7)	-0.2%
Property (State School Levy)- net after transfer	(9,446)	(11,980)	(2,534)	26.8%
Property tax collections	12,549	10,015	(2,534)	-20.2%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	0	0.0%
Estate	7,493	9,167	1,674	22.3%
Real Estate Excise	47,965	68,086	20,121	41.9%
Timber (state share)	0	0	0	NA
Other	11,694	18,344	6,650	56.9%
Department of Licensing (2)	435	522	87	19.9%
Total General Fund-State***	\$1,054,713	\$1,081,564	\$26,852	2.5%
Cumulative Variance Since the November 2004 Forecast (November 11, 2004 - February 10, 2005)				
Department of Revenue-Total	\$3,299,591	\$3,415,527	115,936	3.5%
Revenue Act** (3)	2,373,968	2,422,757	48,789	2.1%
Non-Revenue Act(4)	925,623	992,770	67,147	7.3%
Liquor Sales/Liter	29,129	29,996	866	3.0%
Cigarette	12,644	12,516	(128)	-1.0%
Property (State School Levy)-net after transfer	611,133	607,745	(3,388)	-0.6%
Property tax collections	633,128	629,740	(3,388)	-0.5%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	0	0.0%
Estate	25,405	33,735	8,330	32.8%
Real Estate Excise	144,988	186,522	41,534	28.6%
Timber (state share)	1,842	2,854	1,012	NA
Other	100,481	119,402	18,921	18.8%
Department of Licensing (4)	1,430	1,587	157	11.0%
				NA
Total General Fund-State***	\$3,301,020	\$3,417,113	\$116,093	3.5%

1 Collections January 11 - February 10, 2005. Collections primarily reflect December 2004 activity of monthly taxpayers.

2 January 1-31, 2005 collections.

3 Cumulative collections, estimates and variance since the November 2004 forecast; (Nov. 11 - Feb. 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the Nov. forecast; (November, December 2004 and January 2005) and revisions to history.

* Based on the November 2004 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing), about 97% of total General Fund-State revenue.

TABLE 2
January 10, 2004 Collection Report - Revised Data
Thousands of Dollars

Period/Source	Collections	Revised	Difference	
	Preliminary		Amount	Percent
December 11 - January 10, 2005				
Department of Revenue-Total	\$1,078,455	\$1,078,455	\$0	0.0%
Revenue Act (1)	726,951	726,951	(0)	-0.0%
Non-Revenue Act(2)	351,504	351,504	0	0.0%
Liquor Sales/Liter	8,808	8,808	(0)	-0.0%
Cigarette	4,187	4,187	0	0.0%
Property (State School Levy)-net	246,728	246,728	(0)	-0.0%
Property tax collections	268,723	268,723	0	0.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	(0)	NA
Estate	17,804	17,804	0	0.0%
Real Estate Excise	58,695	58,695	0	0.0%
Timber (state share)	0	0	0	NA
Other	15,282	15,282	0	0.0%
Department of Licensing (2)	567	567	(0)	-0.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,079,022	1,079,022	\$0	0.0%

Cumulative Receipts: November 11 - January 10, 2005 & Revisions to History

Department of Revenue-Total	2,334,484	\$2,334,484	\$0	0.0%
Revenue Act (3)	1,442,148	1,442,148	0	0.0%
Non-Revenue Act(4)	892,336	892,336	0	0.0%
Liquor Sales/Liter	17,383	17,383	(0)	-0.0%
Cigarette	8,312	8,312	(0)	-0.0%
Property (State School Levy)-net after transfer	619,725	619,725	0	0.0%
Property tax collections	641,720	655,162	13,442	2.1%
transfer to the Student Achievement Acct.	(21,995)	(35,437)	(13,442)	NA
Estate	24,568	24,568	(0)	-0.0%
Real Estate Excise	118,436	118,436	0	0.0%
Timber (state share)	2,854	2,854	(0)	NA
Other	101,058	101,058	0	0.0%
Department of Licensing (4)	1,065	1,097	32	3.0%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,335,549	\$2,335,581	\$32	0.0%

Preliminary. Reported in the January 10, 2004 collection report.

1 Collections December 11-January 10, 2005. Collections primarily reflect November 2004 business activity of monthly taxpayers.

2 December 1-31, 2004 collections.

3 Cumulative receipts since the November 2004 forecast: November 11- January 10,2005 & revisions to history.

4 Cumulative receipts since the November 2004 forecast (November & December) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

